MAXIMUS
CALIFORNIA HEALTHY FAMILIES PROJECT

Internal Audit Report
Research and Appeals

August 1, 2007 to July 31, 2008

Lurie Besikof Lapidus
& Company, LLP

TABLE OF CONTENTS

SECTION PAGE

SECTION ONE

Internal Auditor's Report

SECTION ONE – INTERNAL AUDITOR'S REPORT

Mr. Bruce Caswell, President, MAXIMUS Operations Group
Reston, Virginia

We performed tests of management's assertions (Section Four) about the internal control structure with respect to the Research and Appeals processing performed by the MAXIMUS California Healthy Families Project (the Project) during the period August 1, 2007 through July 31, 2008, and its compliance under contract 02MHF026 with the State of California Managed Risk Medical Insurance Board (MRMIB) (Specified Requirements) related to the California Healthy Families program and the Access for Infants and Mothers program (the Programs) during the period August 1, 2007 through July 31, 2008. We also performed tests of the compliance with the Project's Process Procedures, Work Instructions, and Business Rules over Research and Appeals. The Project's Process Procedures, Work Instructions, and Business Rules are meant to assure compliance by the Project with the contract provisions. Management of the Project is responsible for the Project's compliance with the contract requirements. Our responsibility is to express an opinion on the Project's compliance (management's assertions) based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Project's compliance with the Specified Requirements, including compliance with the Project's Process Procedures, Work Instructions, and Business Rules over Research and Appeals, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Project's compliance with the Specified Requirements.

Because of inherent limitations in any internal control structure, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertions (Section Four) with respect to the internal control structure of the Research and Appeals processing performed by the Project and its compliance with the Specified Requirements related to the Programs during the period August 1, 2007 through July 31, 2008, and compliance with the Project's Process Procedures, Work Instructions, and Business Rules over Research and Appeals were sufficient to meet the stated objectives.

This report is intended solely for the information and use of MAXIMUS Operations Group and the MRMIB, and the auditors of the State of California and is not intended to be and should not be used by anyone other than those specified parties.

Lurie Besikof Lapidus & Company, LLP

August 27, 2008

SECTION TWO

Executive Summary

SECTION TWO – EXECUTIVE SUMMARY

Overview

This report summarizes the results of our internal audit procedures related to the internal control structure with respect to the Research and Appeals processing performed by the MAXIMUS California Healthy Families Project (the Project) during the period August 1, 2007 through July 31, 2008. and its compliance under contract 02MHF026 (Contract) with the State of California Managed Risk Medical Insurance Board (MRMIB) related to the California Healthy Families program and the Access for Infants and Mothers program (the Programs). This report also covers tests performed relating to compliance with the Project's Process Procedures, Work Instructions, and Business Rules over Research and Appeals.

Our testing relied on statistically valid sampling of Program Reviews and Appeals occurring during the period from August 1, 2007 through July 31, 2008 to discover any exceptions. Our tests resulted in the exceptions summarized below. However, based on the low percentage error rate in the population tested, we believe that the Project's Research and Appeals processes in place during the period August 1, 2007 through July 31, 2008, are producing the desired processing and monitoring results.

The report covers any exceptions noted during the testing procedures of Research and Appeals and any recommendations to improve the controls in Research and Appeals.

Tests Performed

Our procedures were designed to test both the Program Review and Appeals processing performed by the Project and its compliance under the Contract with the State of California Managed Risk Medical Insurance Board (MRMIB) related to the California Healthy Families program and the Access for Infants and Mothers program (the Programs) during the period. The following are the assertions tested based on the contract provisions.

- Program Reviews

  Program Reviews are appropriately conducted when new information is received within 60 days of the Project decision to disenroll a participant, a Project decision of ineligibility of a participant, or after reviewing the CE request.

  In cases where the Project determines a request does not meet the requirements of an appeal, the request is appropriately processed as a Program Review.

- Appeals

  Appeals are appropriately conducted when an applicant files for an appeal due to their perception that a decision regarding an eligibility effective date of coverage, or disenrollment decision was made in violation of the program rules. Under the rules:

  - Written appeals must be file a within 60 calendar days from the date of the written notice of the decision being appealed.
  - The Project must respond to the appeal in writing within 15 business days.
  - Special handling cases i.e. cases which require the State's attention, will be forwarded to the MRMIB within five (5) business days.

For a statistically valid sample of Program Reviews and Appeals received during the period we verified compliance with contract requirements, Business Rules, Process Procedures and Work Instructions.

The focus included the timeliness and adequacy of correspondences and processing. We reviewed, vouched and tested the following for each Program Review and Appeal selected in the sample.

- Timeliness and adequacy of correspondences and processing
- Correct determination based on facts resulting from the Program Review or Appeal
- Participant's eligible and requesting CE (continued enrollment) were provided CE appropriately
- Disenrollment if appropriate
- Effective date of coverage
- Date of Appeal or Program Review agreed to the document triggering the action
- 2nd level review if appropriate

Sampling Method

Where sampling was performed, a random selection algorithm was utilized. The sample quantity selected assumed an infinite population with a 95% confidence level, a 5% expected error rate in the population, and a 5% error rate in sampling and testing.

Results

There were no relevant exceptions noted in the testing.
We did however note the following:

- Program Reviews
  One of the Program Reviews should have been processed as an AER with a combo note instead of through the incident tracking screens (Program Review).
  MAXIMUS Response
  A Research and Appeals Specialist processed AER on 1/7/08 and documented the case using the Incident Tracking Notes instead of the Combo Notes.
  On 5/23/08, prior to this Internal Audit of Research and Appeals, the issue of using Incident Tracking Notes for processing documents that are not an Appeal or Program Review instead of Combo Notes was discovered during the monthly Quality Assurance (QA) monitoring of Appeals and Program Review Processes. As a result, QMS Alert #3027 was generated to ensure appropriate training and monitoring is in place to minimize Specialists' errors. The average QA accuracy score for using the Incident Tracking Notes for the last two months is 99.89%. Central Operations management will continue to monitor this aspect of performance as appropriate.
- Appeals
  One Appeal was determined to be a medical bill only and not an appeal. This should have been processed through the combo notes and not through the incident tracking screens (Appeals processing).
  MAXIMUS Response
  A Research and Appeals Specialist processed a medical bill on 5/12/08 using the Incident Tacking Notes when it was the only document received. The medical bill should have been documented through the Combo Notes.

On 5/23/08, prior to this Internal Audit of Research and Appeals, the issue of using Incident Tracking Notes for processing documents that are not an Appeal or Program Review instead of Combo Notes was discovered during the monthly Quality Assurance (QA) monitoring of Appeals and Program Review Processes. As a result, QMS Alert #3027 was generated to ensure appropriate training and monitoring is in place to minimize Specialists' errors. The average QA accuracy score for using the Incident Tracking Notes is 99.89%. Central Operations management will continue to monitor this aspect of performance as appropriate.

Detailed results along with the tests performed are presented in Section Four - Results of this report.

SECTION THREE

Scope and Objective

SECTION THREE – SCOPE AND OBJECTIVE

Scope of the Internal Audit

The scope of this internal audit engagement was to examine the Project's stated controls and procedures developed to meet the objectives of the Program Reviews and Appeals provisions of the Project's contract with the MRMIB during the period August 1, 2007 through July 31, 2008.

Research and Appeals Business Rules

An applicant may file an appeal if the applicant believes an eligibility effective date of coverage, or disenrollment decision was made in violation of the Program rules. An applicant may designate an authorized representative to file the appeal and inquire about the status of the appeal.

The applicant must file a written appeal within 60 calendar days from the date of the written notice of the decision being appealed. The Healthy Families Program will respond to the appeal in writing within 15 business days.

Special handling cases i.e. cases which require the State's attention, will be forwarded to the MRMIB (including copies of all documentation and correspondence) within five (5) business days.

If an appeal is incomplete or does not concern at least one of the three issues listed above or is received beyond the specified timeframe (i.e., 60 days), the applicant is not entitled to a full appeal and the administrative vendor will review the request and process as correspondence.

The Healthy Families Program (HFP) has a three-step appeals process. These steps are referred to as:

- First Level Administrative Reviews
- Second Level Administrative Reviews
- Administrative Hearings

A. First Level Appeal:

First level appeals are written appeals received by the HFP administrative vendor or MRMIB for the first time. A first level appeal must be filed within 60 days of the date on the decision notification by vendor or state. First level appeals must be processed by the administrative vendor within 15 business days of receipt. The appeal must explain why the applicant thinks the decision was incorrect and how they want the program to resolve the issue. An appeal form is sent with the disenrollment notice.

Exceptions:

The HFP administrative vendor will forward any first level appeal to the MRMIB if:

a. The appeal includes outstanding medical bills incurred due to a disputed effective date of coverage.

b. The appeal is of a sensitive nature and the referral has been approved by an HFP supervisor (i.e., request from legislative member).

All appeals requiring the MRMIB's review must be forwarded by HFP to the MRMIB within 5 business days of receipt. The HFP will provide a timeline/chronology of critical events (application received, determination made or not made, letters sent to or by the applicant, earliest effective date, etc.) and identify any mistakes made by the HFP. Please see "Special Handling of Appeals. Program Reviews, Correspondence identified by MRMIB" section of business rules.

If a first level appeal is denied, the applicant must be notified of his or her right to request a second level appeal review with the Executive Director of the MRMIB.

B. Second Level Appeal:

Second level appeals are timely appeals from first level appeal decisions made by the HFP administrative vendor or the MRMIB. A second level appeal must be filed within 30 days of the first level appeal decision notification. All second level appeal will be processed by MRMIB. A copy of the MRMIB response letter to the applicant will be forwarded to the administrative vendor. The administrative vendor will scan the document into the case file.

If a second level appeal is denied, the applicant will be notified by MRMIB of his or her right to request a State administrative hearing.

If a 2nd level appeal is received by the administrative vendor, it needs to be forwarded to MRMIB within 5 business days of receipt.

C. Administrative Hearing:

An applicant may request an administrative hearing only if he or she has complied with both the first and second level appeal processes. An Administrative Law Judge (ALJ) conducts the administrative hearing and prepares a proposed decision to the Board. Decisions adopted by the Board are final and the applicant will have fully exhausted his or her appeal rights.

D. Correspondence/Program Review:

Correspondence includes requests that the HFP administrative vendor or the MRMIB reviews although they do not meet at least one of the three appeal criteria or are not received by HFP or the MRMIB within the specified time requirements (i.e., 60 days for first level and 30 days for second level). These reviews must be processed by HFP administrative vendor within 15 business days of receipt. If a request is denied, the applicant must be notified in writing of the decision, and must be notified that there are no further appeal rights.

E. Special Handling of Appeals, Program Reviews, Correspondence Identified by MRMIB:

a. The MRMIB will sends to the HFP, by email or courier, individual cases that require special handling.

b. The designated administrative vendor representative will research the case and provide the following in a format agreed upon by the MRMIB and the HFP:

1. A timeline/chronology of critical events (application received, determination made or not made, letters sent to or by the applicant, etc)
2. Identifies any mistakes made by the HFP
3. Provides a recommendation on the action for the case to the MRMIB. If new information submitted now qualifies the child for the HFP, the child will be enrolled and the information on enrollment provided to MRMIB

c. HFP submits a case chronology with each second level appeal and cases forwarded to MRMIB for payment of medical bills as long as producing the case chronology does not delay production cycle times. If production cycle times will be delayed, HFP gives the MRMIB an anticipated completion date for the outstanding case chronologies.

d. There is a separate expedited process for review of cases brought to the attention of the MRMIB management staff. These requests are sent to the HFQA@maximus.com mail box with specific instructions.

e. In the event of a backlog (over 60 days from date of receipt) of cases for review at MRMIB, the HFP provides:

   1. A timeline/chronology of critical events (application received, determination made or not made, letters sent to or by the applicant, etc)
   2. Identifies any mistakes made by the HFP
   3. Provides a recommendation on the action for the case to the MRMIB designated analyst via e-mail within a mutually agreed upon timeframe of receipt. The response will be in a format agreed upon by MRMIB and the HFP. If new information submitted now qualifies the child for the HFP, the child will be enrolled and the information on enrollment provided to MRMIB

Internal Audit Objective

The overall objective of this internal audit engagement was to verify the Project's controls and procedures ensure that the rules of the contract with the MRMIB regarding the Research and Appeals processes were implemented and operational during the period August 1, 2007 through July 31, 2008.

SECTION FOUR

Results

SECTION FOUR – RESULTS

The components, testing procedures performed and results are listed below.

Assertion	Audit Procedures	Results
Program Reviews		
Program Reviews are appropriately conducted when new information is received within 60 days of the Project decision to disenroll a participant, a Project decision of ineligibility of a participant, or after reviewing the CE request. In cases where the Project determines a request does not meet the requirements of an appeal, the request is appropriately processed as a Program Review.	• *Obtained* an extract from the system database of the HFP Program Reviews processed during the period from August 1, 2007 through July 31, 2008. • *Selected* a statistically valid sample from the finite population of Program Reviews obtained for the period August 1, 2007 through July 31, 2008. The parameters for the sample were: ▪ A 95% Confidence level, with a tolerable margin of error in the result of plus or minus 5% ▪ An expected error rate in the population pool sampled of 5% ▪ An estimated sampling error rate of 5% • *Traced* the sample selected to the data contained in the system. Examined and verified the following attributes: ▪ New information was received within 30 calendar days of disenrollment. ▪ CE was granted during the review process.	Obtained 169,732 records without exception. Selected a sample size of seventy-three (73) Program Reviews without exception. Traced sample of seventy-three (73) participants to program review information in the system. No relevant exceptions were noted in the testing. We did however note that one of the Program Reviews should have been processed as an AER with a combo note instead of through the incident tracking screens (Program Review).

Assertion	Audit Procedures	Results
	▪ The applicant received appropriate notification when the case was reviewed. ▪ If the new information makes the participant eligible, the participant was re-enrolled. ▪ If the new information makes participant ineligible the applicant receives 1st level appeal rights on the decision based on the new information.	MAXIMUS Response A Research and Appeals Specialist processed AER on 1/7/08 and documented the case using the Incident Tracking Notes instead of the Combo Notes. On 5/23/08, prior to this Internal Audit of Research and Appeals, the issue of using Incident Tracking Notes for processing documents that are not an Appeal or Program Review instead of Combo Notes was discovered during the monthly Quality Assurance (QA) monitoring of Appeals and Program Review Processes. As a result, QMS Alert #3027 was generated to ensure appropriate training and monitoring is in place to minimize Specialists' errors. The average QA accuracy score for using the Incident Tracking Notes for the last two months is 99.89%. Central Operations management will continue to monitor this aspect of performance as appropriate.

Assertion	Audit Procedures	Results
Appeals		
Appeals are appropriately conducted when an applicant files for an appeal due to their perception that a decision regarding an eligibility effective date of coverage, or disenrollment decision was made in violation of the program rules. Under the rules: • Written appeals must file a within 60 calendar days from the date of the written notice of the decision being appealed. • The Project will respond to the appeal in writing within 15 business days. • Special handling cases i.e. cases which require the State's attention, will be forwarded to the MRMIB within five (5) business days.	• *Obtained* an extract from the system database of the HFP Appeals processed during the period from August 1, 2007 through July 31, 2008.	Obtained 974 records without exception.
	• *Selected* a statistically valid sample from the finite population of the Appeals obtained for the period August 1, 2007 through July 31, 2008. The parameters for the sample will be: ▪ A 95% Confidence level, with a tolerable margin of error in the result of plus or minus 5% ▪ An expected error rate in the population pool sampled of 5% ▪ An estimated sampling error rate of 5%	Selected a sample size of Sixty-eight (68) Program Reviews without exception.
	• *Traced* the sample selected to the data contained in the system. Examined and verified the following attributes: ▪ The determination and response in writing was made for the HFP appeals within fifteen (15) business days from the date in which the appeal was received.	No relevant exceptions were noted in the testing. We did however note that one Appeal was determined to be a medical bill only and not an appeal. This should have been processed through the Combo Notes and not through the incident tracking screens (Appeals Processing).

Assertion	Audit Procedures	Results
	▪ Within five (5) business days, HFP appeals that require the State's attention were forwarded to a designated contact person at the State. ▪ The system database contains accurate (as verified by images contained in the files) and the appropriate information. ▪ Based upon the facts, the result and final disposition of the Appeal was appropriate. ▪ Determined if the correct and appropriate letter correspondence was sent to the applicant.	MAXIMUS Response A Research and Appeals Specialist processed a medical bill on 5/12/08 using the Incident Tacking Notes when it was the only document received. The medical bill should have been documented through the Combo Notes. On 5/23/08, prior to this Internal Audit of Research and Appeals, the issue of using Incident Tracking Notes for processing documents that are not an Appeal or Program Review instead of Combo Notes was discovered during the monthly Quality Assurance (QA) monitoring of Appeals and Program Review Processes. As a result, QMS Alert #3027 was generated to ensure appropriate training and monitoring is in place to minimize Specialists' errors. The average QA accuracy score for using the Incident Tracking Notes is 99.89%. Central Operations management will continue to monitor this aspect of performance as appropriate.